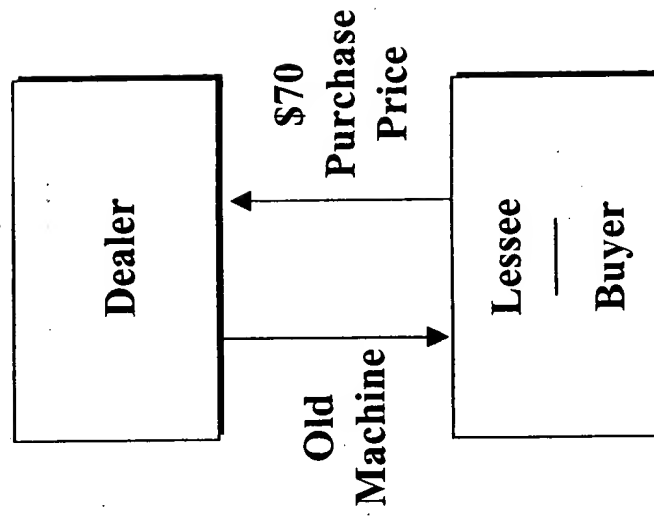


# Like-Kind Exchange



## *Like-Kind Exchange*

Section 1031(a) provides that—

No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.



## *Like-Kind Exchange*

### Section 1031 Nonrecognition Requirements

- 1) Property surrendered and property received must be held either for productive use in a trade or business, or for investment;
- 2) Property surrendered and property received must be of “like-kind;” and
- 3) Must be an exchange (as distinguished from a sale and repurchase).

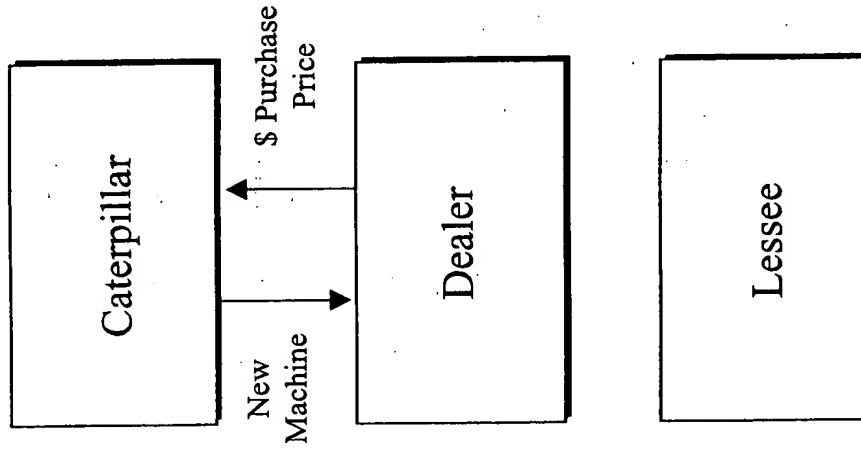
# *Like-Kind Exchange*

## **Ineligible Property**

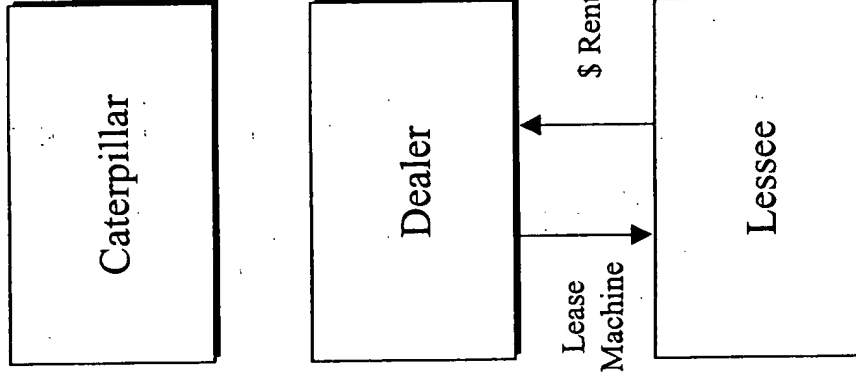
Like-kind exchange treatment is not available for:

1. **Inventory**,
2. Stocks, bonds, or notes,
3. Other securities or evidences of indebtedness,
4. Partnership interests,
5. Certificates of trust or beneficial interests, or
6. Choses in action.

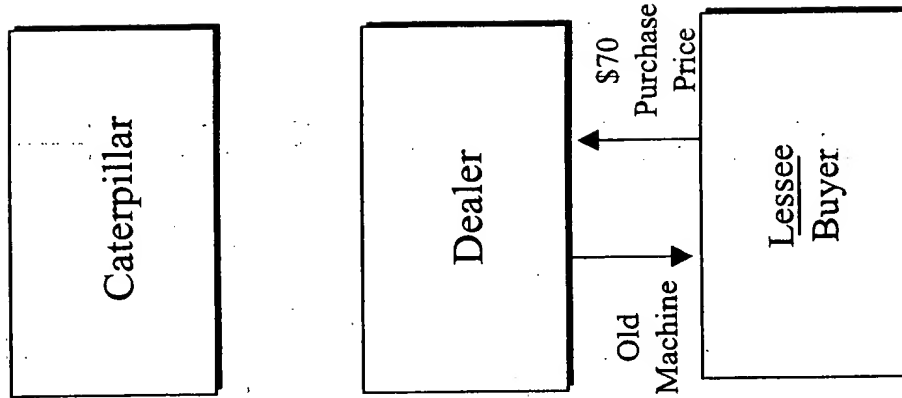
# Like-Kind Exchange



# Like-Kind Exchange

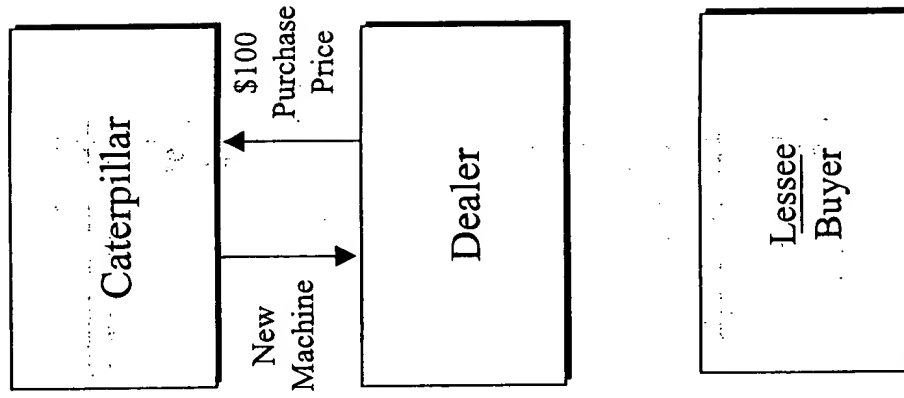


# Like-Kind Exchange





# Like-Kind Exchange



Lessee  
Buyer

# Like-Kind Exchange



|   | Sales Price | Tax Basis | Gain Realized | Gain Recognized    | Tax Liability    |
|---|-------------|-----------|---------------|--------------------|------------------|
| <u>Sold after two years</u>               |             |           |               |                    |                  |
| Sell - 416 Backhoe                        | \$ 33,579   | \$ 18,034 | \$ 15,545     | \$ 15,545          | \$ 5,907         |
| LKE - 416 Backhoe                         | \$ 33,579   | \$ 18,034 | \$ 15,545     | \$ -<br>Cash Saved | \$ -<br>\$ 5,907 |
| <u>Sold after three years</u>             |             |           |               |                    |                  |
| Sell - 416 Backhoe                        | \$ 29,484   | \$ 10,631 | \$ 18,853     | \$ 18,853          | \$ 7,164         |
| LKE - 416 Backhoe                         | \$ 29,484   | \$ 10,631 | \$ 18,853     | \$ -<br>Cash Saved | \$ -<br>\$ 7,164 |
| Purchase Price \$40,590<br>Tax Rate - 38% |             |           |               |                    |                  |

# Like-Kind Exchange

|  | Sales Price | Tax Basis | Gain Realized | Gain Recognized    | Tax Liability     |
|--|-------------|-----------|---------------|--------------------|-------------------|
| <u>Sold after two years</u>                |             |           |               |                    |                   |
| Sell - 950 Wheel Loader                    | \$123,000   | \$ 66,060 | \$ 56,940     | \$ 56,940          | \$ 21,637         |
| LKE - 950 Wheel Loader                     | \$123,000   | \$ 66,060 | \$ 56,940     | \$ -<br>Cash Saved | \$ -<br>\$ 21,637 |
| <u>Sold after three years</u>              |             |           |               |                    |                   |
| Sell - 950 Wheel Loader                    | \$115,500   | \$ 38,940 | \$ 76,560     | \$ 76,560          | \$ 29,093         |
| LKE - 950 Wheel Loader                     | \$115,500   | \$ 38,940 | \$ 76,560     | \$ -<br>Cash Saved | \$ -<br>\$ 29,093 |
| Purchase Price \$150,000<br>Tax Rate - 38% |             |           |               |                    |                   |



# Like-Kind Exchange

Caterpillar

Dealer

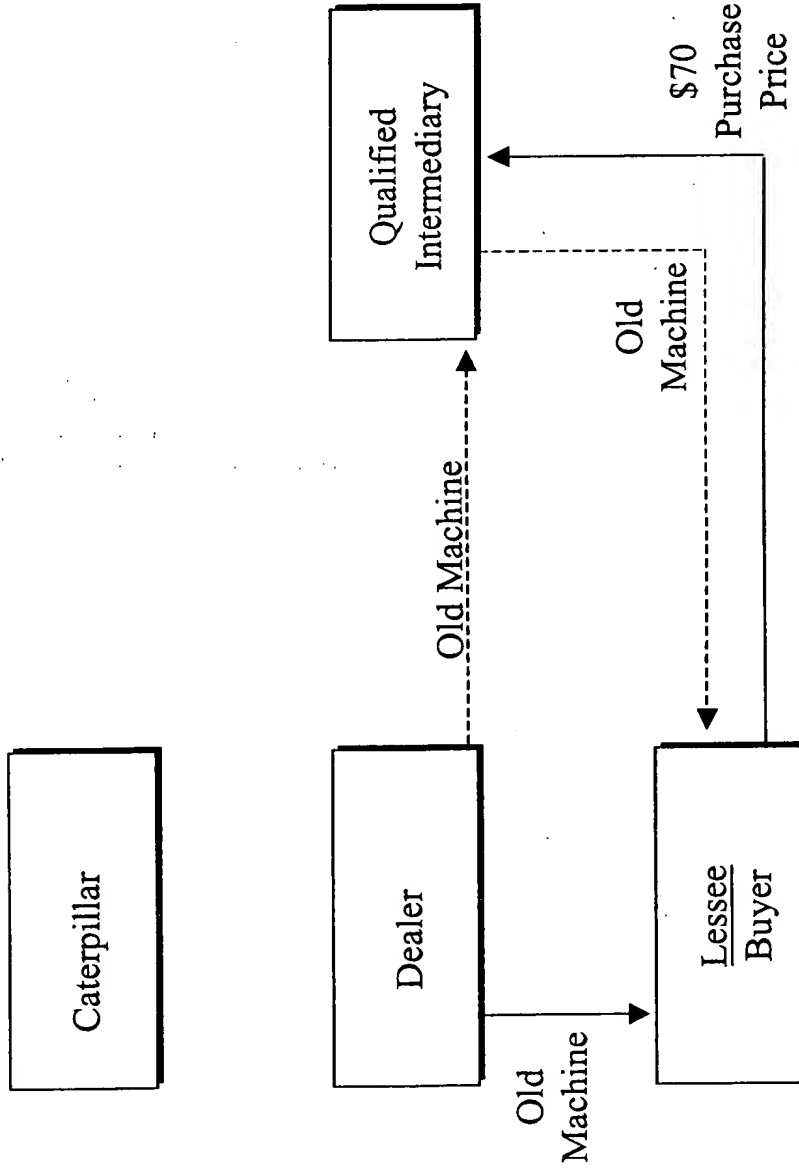
Old  
Machine

Lessee  
Buyer

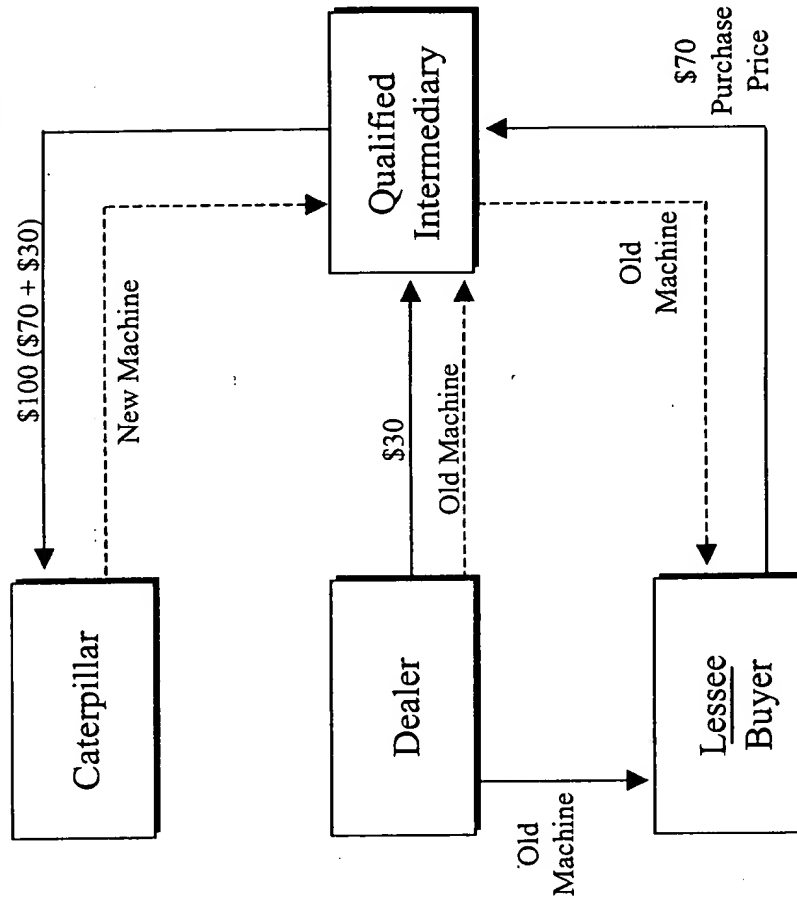
\$70

Purchase  
Price

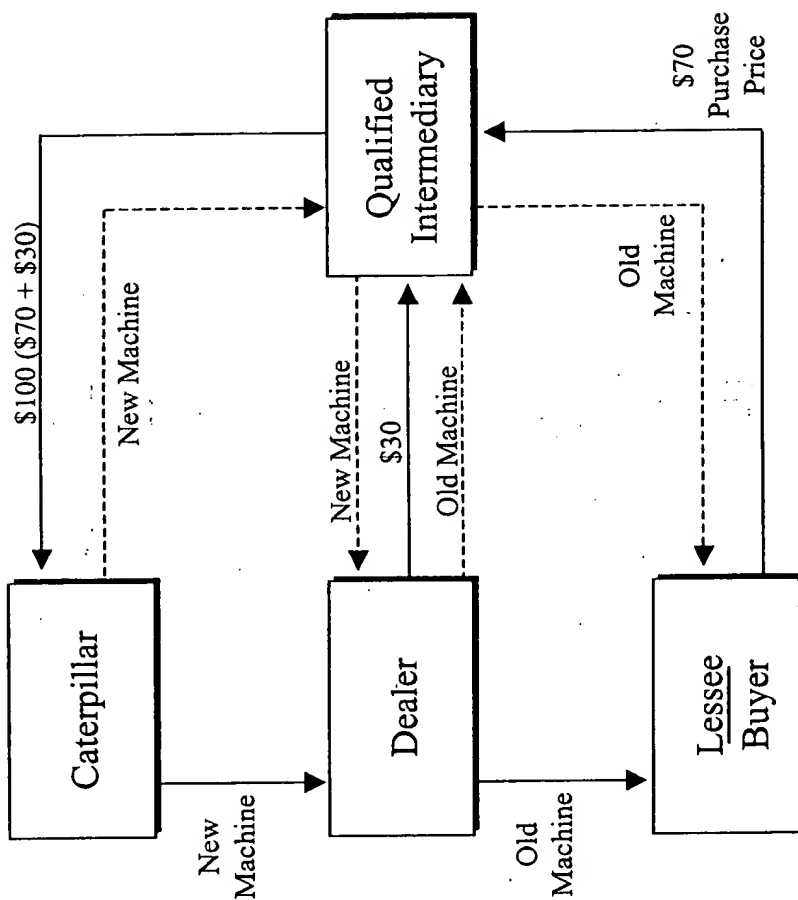
# Like-Kind Exchange

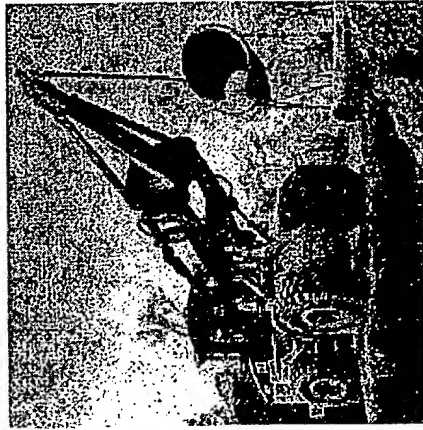


# Like-Kind Exchange



# Like-Kind Exchange

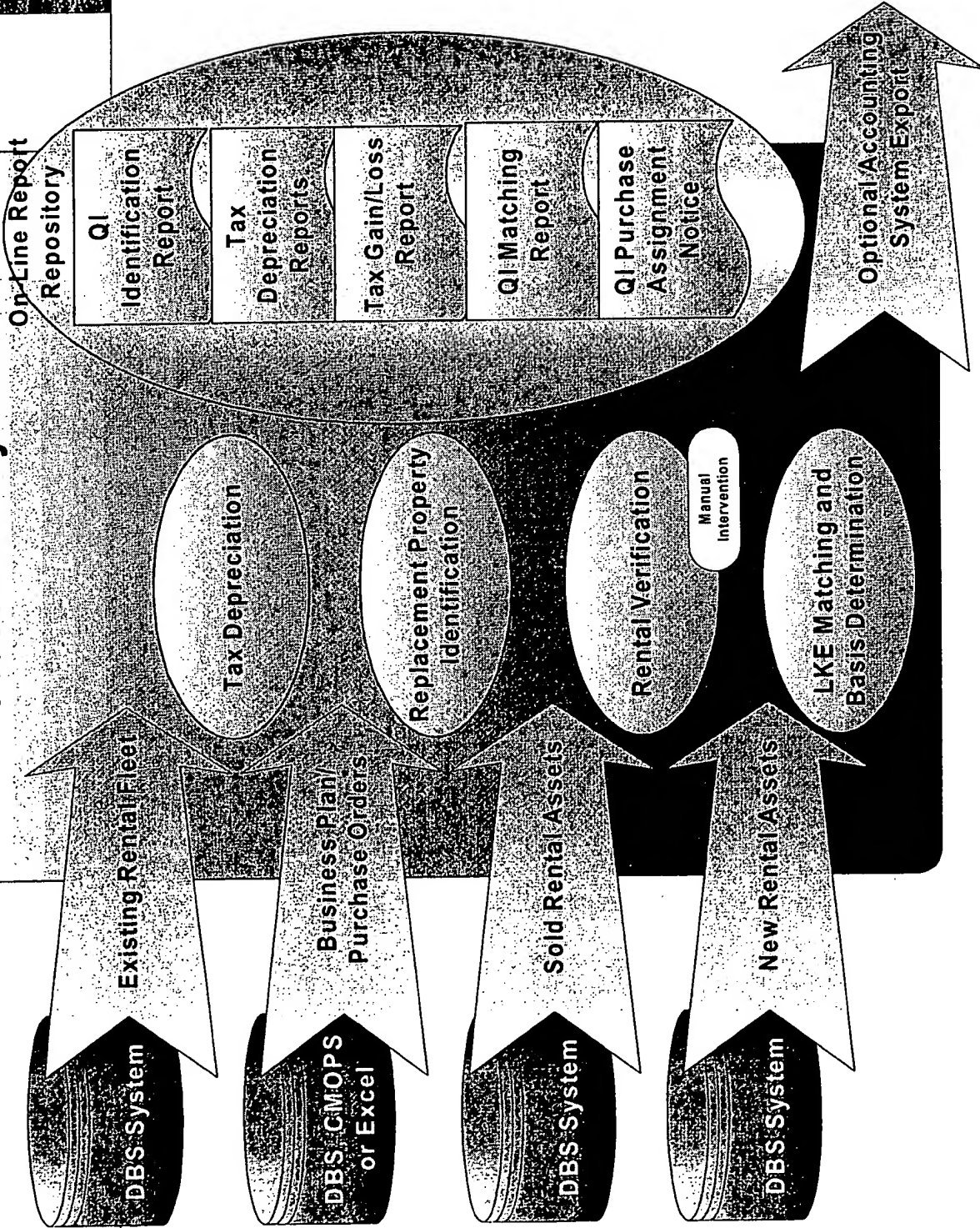






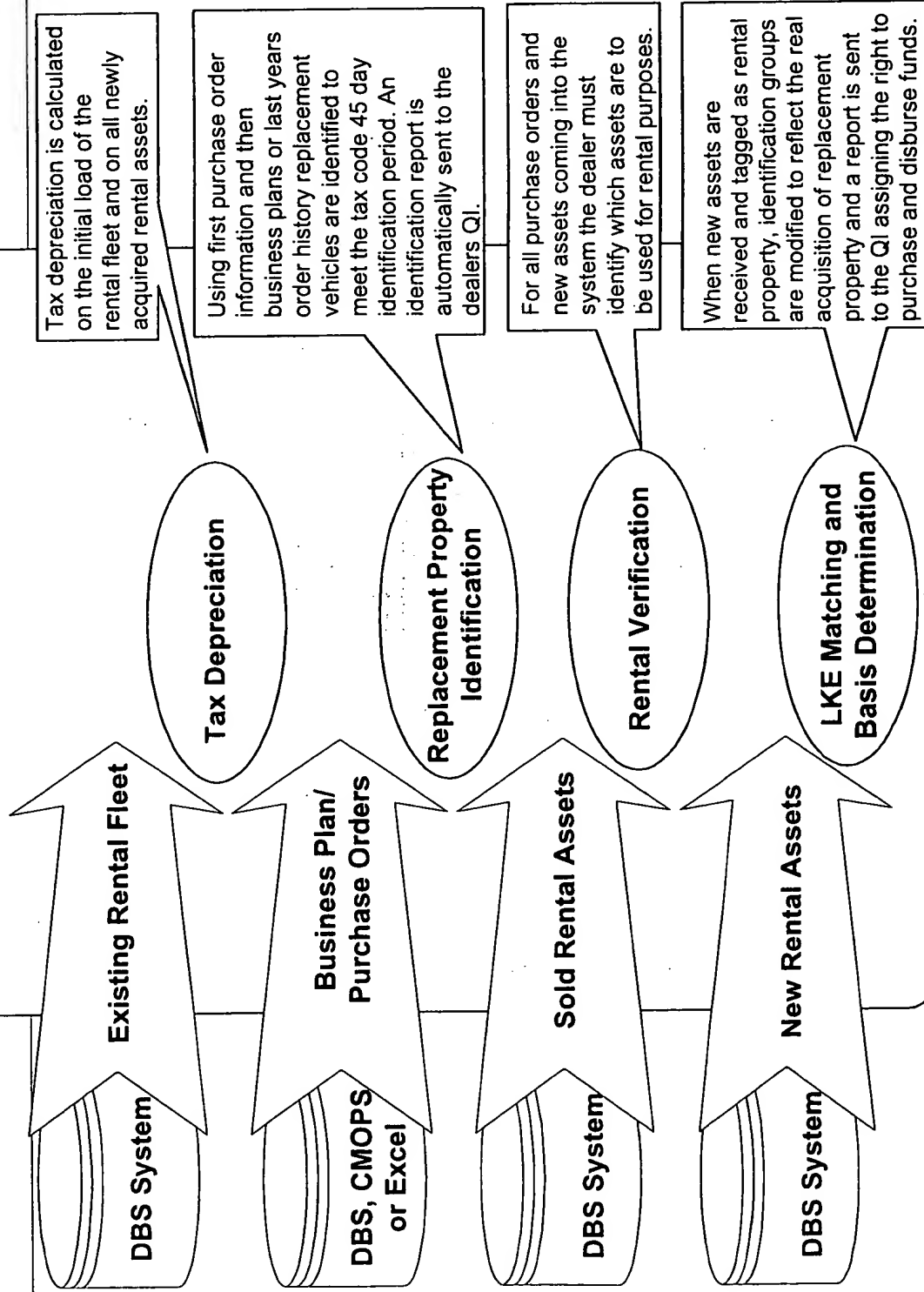


## Fleet LKE System

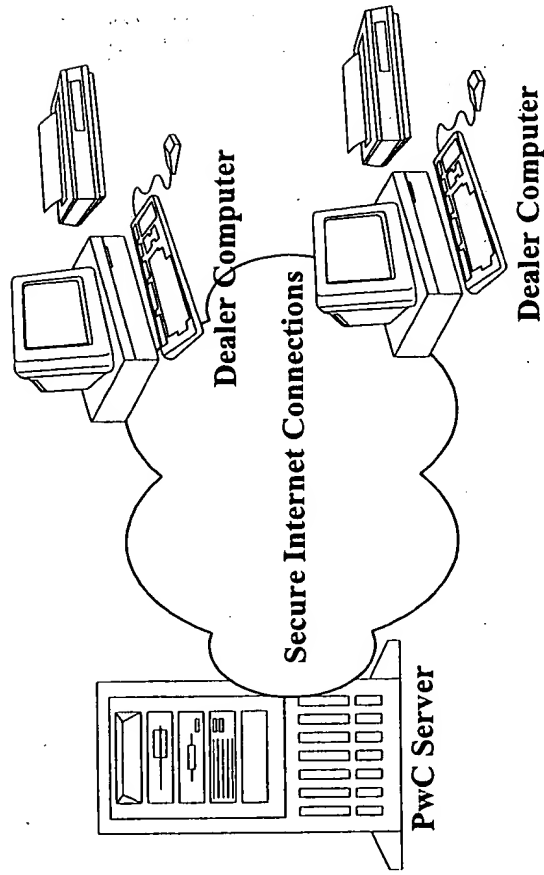




## Fleet LKE System



# *System Platform/ Architecture*



## **Dealer Technology Requirements**

- ▼ Pentium Internet Ready Computer
- ▼ Account with Internet Service Provider (ISP)
- ▼ Access to data in DBS system

# *Like-Kind Exchange*

## **Dealer Involvement**

### **◆ Initial Involvement**

- ▼ Establish account with an ISP
- ▼ Implement system and set up (with PwC assistance) DBS extracts and file transfers
- ▼ Assist in reconciliation of tax depreciation after initial asset load

### **◆ Ongoing Involvement**

- ▼ Daily/weekly transmit files to Fleet LKE if an automatic transfer cannot be established
- ▼ Manually enter or import data for any rental assets to be included in the LKE program that are not maintained by DBS
- ▼ Review daily/weekly/monthly reports

## *Like-Kind Exchange*

### **Next Steps**

- ◆ **Verify system design/interface with dealer**
- ◆ **Create standard DBS system extracts**
- ◆ **Research automated DBS data transfer via FTP**
- ◆ **Create standard dealer implementation plan**

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